WEEKLY FINANCIAL SERVICES REPUBLICAN ROUND-UP 10.8.2009

MESSAGING RESOURCES/POLLING UPDATE

Financial Services Product Approval Agency:

The Democrats' Proposal Gives Unprecedented Authority To Unelected Bureaucrats That Will Restrict Credit At The Worst Possible Time. The Democrats want to give unprecedented authority to unelected bureaucrats to ration credit and impose taxes on consumers and our small businesses. This delegation of Congressional authority is irresponsible. Creating a credit czar will only prolong the economic downturn and undermine job creation. This is not the time to limit the ability of our small businesses to obtain the credit they need to expand and create jobs.

The Chamber of Commerce's study on the impact of CFPA on small businesses found that: "The CFPA would likely reduce an important source of credit to small businesses. This induced credit squeeze comes at a time when it is likely that small business credit will be already highly restricted as the lending industry digs out of the current financial crisis....The CFPA credit squeeze would likely result in business closures, fewer startups, and slower growth. Overall, this would cost a significant number of jobs that would either be lost or not created. ...Many suppliers of consumer financial services products are small firms such as community banks. The CFPA would harm these smaller suppliers because the new agency would impose fixed costs of compliance that weigh disproportionately on smaller firms, and because it would encourage product standardization that benefits larger firms."

Wall Street banking analyst Meredith Whitney wrote recently: "Small businesses primarily fund themselves through credit cards and loans from local lenders. In the past two years, credit-card lines have been cut by over $1.25 trillion. During the same time, 10% of all credit-card accounts have been cancelled. According to the most recent Federal Reserve data, small business lending is down 3%, or $113 billion, from fourth-quarter 2008 peak levels -- the first contraction since 1993. Credit cards are the most common source of liquidity to small businesses, used by 82% as a vital portion of their overall funding. Thus, it is of merit when 79% of small businesses surveyed tell the Small Business Association that credit-card lending standards have tightened drastically and their access to credit lines has decreased materially." (Wall Street Journal, 10/2/2009)

Consumer Protection Should Not Be Separate From Safety And Soundness Regulation. The Democrats' proposal creates a new government agency that separates consumer protection from safety and soundness regulation. This separation will lead to turf battles that will undermine consumer protection and the safety and soundness of financial institutions. Our financial regulators have testified on the benefits and synergies of having consumer protection and safety and soundness supervision conducted by the same agency.

As Federal Reserve Chairman Ben Bernanke stated: "We believe there are also advantages in maintaining supervision of consumer protection in the same agency that provides safety and soundness supervision. The two are linked both substantively and practically. There are substantial efficiency and information advantages from having the two functions housed in the same agency." (7/28/2009)

The Democrats' Proposal Undermines National Markets And Requires Financial Institutions To Navigate A Patchwork Of Conflicting State Laws. Having uniform national laws has allowed our markets to flourish, resulting in increased access to credit for consumers. The Democrats' proposal will undermine our national financial markets by encouraging states to add additional layers of regulation and enforcement on top of those implemented by the Financial Services Product Approval Agency. Allowing state law to supersede federal law will increase costs for consumers, reduce consumer choice, and place U.S. companies at a competitive disadvantage.

Derivatives:

Derivatives Were Not The Root Of The Financial Crisis. The Democrats continue to use the crisis to impose unnecessary and burdensome regulations in practically every corner of the financial markets. It is important to remember that subprime mortgages, not derivatives, sparked the crisis. As Congress works to reform the derivatives market, we must ensure that legislation does not create unintended consequences that could make our markets less competitive. Solutions should focus on reforms that promote greater transparency and provide regulators with needed information about the industry in order to address potential financial instability.

Congress Should Not Restrict The Ability Of Congress To Manage Risk. Companies use derivatives as a tool to effectively manage risk. However, changes expected to be made by the Democrats may unnecessarily restrict the ability of companies to utilize derivatives which will increase risk exposure of the many market participants that have come to depend on them. Unfortunately, this is yet another Democrat proposal that will prolong the economic downturn.

Polling Update

Rasmussen: "62% Oppose Second Stimulus Package This Year...Some in Congress are considering a second stimulus plan to fight the country's growing unemployment problem, but 62% of U.S. voters oppose the passage of another economic stimulus package this year."

LESSONS LEARNED THIS WEEK

Democrats Are Creating The Illusion Of Progress On The Administration's Financial Regulatory Reform Plan. This week Treasury officials met with lawmakers to promote the Administration's proposal for regulatory reform. The week culminated with the President appealing for public support on their so-called consumer financial protection agency.

Politico: "Treasury asked for the meetings to answer lawmakers' questions, explain the Treasury's rationale for particular positions, interact with members and let them understand "why it is urgent," said Williams." (10/6/2009)

The Administration Is Also Creating An Illusion Of Progress Regarding Its Loan Modification Program.

NY Times: "Unaffordable mortgages are now being modified at a pace faster than homes are being sold in foreclosure proceedings, the Treasury secretary, Timothy F. Geithner, said. ‘That's an important shift,' Mr. Geithner said in a telephone briefing with reporters. ‘Half a million families are participating in loan modifications that are substantially decreasing their housing costs.'... ‘We've put significant pressure on the servicers to ramp up production,' said the housing and urban development secretary, Shaun Donovan, in Thursday morning's briefing."

However, a report released by the Congressional Oversight Panel raised doubts that the Administration's program will achieve its goal of mitigating 3 to 4 million foreclosures. As Congressman Jeb Hensarling points out: "A fair reading of the Panel's majority report and my dissent leads to one conclusion -- HAMP and the Administration's other foreclosure mitigation efforts to date have been a failure. The Administration's opaque foreclosure mitigation effort has assisted only a small number of homeowners while drawing billions of involuntary taxpayer dollars into a black hole."

Politico: "The Obama administration's $50 billion plan to curb foreclosures isn't big or fast enough to keep up with the growing problem, a congressional watchdog concludes in a report being released Friday. ‘It increasingly appears that [the foreclosure program] is targeted at the housing crisis as it existed six months ago, rather than as it exists right now,' the report warns."

Democrats Have Not Given Up On Using TARP Dividend Payments To Fund Their Initiatives. Democrats continue to view TARP as a slush fund for their initiatives. Chairman Frank introduced legislation this week (H.R. 3766) that would divert TARP repayments for foreclosure aid. Frank previously introduced legislation that would divert TARP payments to fund the Democrats' housing credit reallocation. This is despite the fact that CBO has reported taxpayers have already lost 70% of the first $55 billion investment in the automakers, fewer banks are paying TARP dividends, and taxpayers have not been fully repaid.

ON THE HORIZON

Wednesday, October 14 (and subsequent days if necessary): The Full Committee will meet at 10 a.m. in room 2128 Rayburn to mark up four bills: derivatives legislation; the financial services product approval agency, H.R. 3763, to amend the Fair Credit Reporting Act to provide for an exclusion from Red Flag Guidelines for certain businesses; and H.R. 3639, the Expedited CARD Reform for Consumers Act.

WEEKEND MUST-READS

Wall Street Journal: "Frank's Plan Criticized As Too Lax ... Two federal regulators criticized parts of Rep. Barney Frank's proposal to overhaul financial regulation, saying it will let large companies escape restrictions on the types of financial products that contributed to last year's crisis."

Wall Street Journal: "Fed Frets About Commercial Real Estate ... Banks in the U.S. "are slow" to take losses on their commercial real-estate loans being battered by slumping property values and rental payments, according to a Federal Reserve presentation to banking regulators last month."

Wall Street Journal: "Fannie and Freddie to Aid Mortgage Banks ... Fannie Mae and Freddie Mac are preparing to introduce a program aimed at helping independent mortgage banks acquire the short-term credit they need to make home loans, according to people familiar with the plans."

Wall Street Journal: "Another Scary Czar ... The time of year has arrived again when the stores fill up with the masks and costumes of Halloween. Some folks probably think Washington has spent most of the past year creating scary things, from the Stimulus Monster to the Trillion Dollar ObamaCare castle. But wait, there's more. Moderate Democrats in Congress, small-town bankers and their customers are now trying to protect themselves from yet another Beltway "czar.""

LA Times: "FHA may be setting up repeat of housing bubble, lawmakers worry ... In the wake of the mortgage meltdown, the Federal Housing Administration has emerged as a pillar of the still wobbly housing market -- providing vital insurance that enables borrowers to qualify for loans with as little as 3.5% down."

Reuters: "Fed becomes reluctant landlord ... The Federal Reserve's ballooning balance sheet is turning into something of a legal morass."

The Hill: "Lawmakers show worry over U.S. dollar's dwindling worldwide status ... New waves of concern are rippling through Congress over the state of the U.S. dollar amid record budget deficits."

Wall Street Journal: "House Pushes Ahead on Financial-Rules Overhaul ... The House of Representatives will consider sweeping legislation rewriting the financial sector's rule book in November, House Majority Leader Steny Hoyer (D., Md.), said Tuesday, boosting the chances that Congress will complete a regulatory overhaul this year."

NY Times: "Partisan Economics in Action ... Successful economic ideas usually end up being taken too far."

USA Today: "Opposing view: Local banks serve consumers ... There is no doubt that too many Americans were deceived and abused as part of the frenzied home buying and lending spree during the mortgage market bubble that, in turn, led to the greatest financial markets crisis since the Great Depression. And no doubt policymakers should establish tough measures to prevent unregulated and unscrupulous non-bank financial services firms - and the giant Wall Street firms that enabled them - from ever again taking advantage of consumers."

Wall Street Journal: "Pay Czar Targets Salary Cuts ... The Obama administration's pay czar is planning to clamp down on compensation at firms receiving large sums of government aid by cutting annual cash salaries for many of the top employees under his authority, according to people familiar with the matter."

Wall Street Journal: "Toxic-Asset Rescue Funds Start ... While many investors are focused on the winding down of government programs, one notable piece of the rescue effort is finally ramping up."

Wall Street Journal: "Goldman in Talks on CIT Debt ... Goldman Sachs Group Inc. said it is in talks to amend the terms of a $3 billion loan to CIT Group Inc."

LA Times: "FDIC's Bair drills down on how to end 'too big to fail' ... Federal Deposit Insurance Corp. Chairwoman Sheila Bair gave a long speech to an international meeting of bankers in Istanbul, Turkey, today, focusing on how to end the "too big to fail" doctrine."

Washington Times: "Study: Bernanke, Paulson misled public on bailouts ... Federal Reserve Chairman Ben S. Bernanke and former Treasury Secretary Henry M. Paulson Jr. misled the public about the financial weakness of Bank of America and other early recipients of the government's $700 billion Wall Street bailout, creating "unrealistic expectations" about the companies and damaging the program's credibility, according to a report by the program's independent watchdog."

COMMITTEE REPUBLICANS IN THE NEWS

Rep. Shelley Moore Capito appeared on CNBC to discuss regulatory reform.

Rep. Scott Garrett issued this press release: Garrett Introduces SOX Exemption for Small Businesses

Rep. Spencer Bachus issued these press releases: Bachus Statement On Financial Services Product Approval Agency; Bachus Statement During Derivatives Hearing; Bachus Statement During Capital Markets Regulatory Reform Hearing.

CARTOON OF THE WEEK

(Washington Post 10/8/2009)